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## **Shareholders' Rights Directive Impact on Engagement**

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**Mestrado em Matemática Financeira**

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## **Abstract**

This thesis looks at the Shareholders' Rights Directive II and analyses the potential influence of it in corporate governance and investment intermediaries' practices. By removing barriers to active ownership and shareholder engagement, the Directive encourages investors to participate in the companies' decision-making process and pressure firms into adopting sustainable strategies, avoid excessive risk-taking and, in return, add value to the firms. We also consider the positive impact of the Directive in the companies' share prices via engagement and active ownership based on academic studies. Additionally, we recognize the elements of an engagement that contribute to its success and how the Directive aims to catalyse them by increasing transparency and expediting communications through the intermediaries' chain.

We also analyse the influence the investors can have on board remuneration policies. Moreover, we take a closer look at the implementation of the Directive in Portugal and anticipate possible impacts. Hence, we compare the new law's parameters against the current Code and level of compliance of the top Portuguese companies. Additionally, we analysed the activities of Norges Bank Investment Manager, which not only holds stock of most top Portuguese companies, but hold standards in line with the Directive's.

We concluded that shareholders are now more capable of pressuring the companies to adopt more sustainable policies through engagement, and both parties can benefit from it. Portuguese companies, in particular, might see improvements in terms of disclosure and remuneration, even though the board and shareholder structure of the Portuguese firms might constitute a barrier to engagement.

**Keywords:** Shareholders' Right Directive, Engagement, Corporate Governance, Sustainability.

**JEL:** G23, G28, G32, G38.



## **Resumo**

Esta tese aborda a Diretiva dos Direitos dos Acionistas II e analisa a sua potencial influência no governo societário e nas práticas dos intermediários financeiros. Ao remover barreiras para a participação ativa e o envolvimento dos acionistas, a Diretiva encoraja os investidores a participar no processo de decisão das empresas e a pressioná-las a adoptar estratégias sustentáveis, evitando riscos excessivos, acrescentando, assim, valor às mesmas. Analisamos também o impacto positivo da Directiva nas cotações, baseado em estudos académicos. Além disso, identificamos os elementos do envolvimento acionista que contribuem para o seu sucesso e a forma que Directiva tem de os catalizar ao promover o aumento da transparência e melhorando a comunicação através da cadeia de intermediários.

Analisamos ainda a influência que os investidores podem ter nas políticas de remuneração.

Do mesmo modo, observamos de perto a implementação da Directiva em Portugal e antecipamos potenciais impactos. Para isso, comparamos os novos parâmetros legais com o Código atual e o nível de adesão às normas das principais empresas portuguesas. Por fim, analisamos a atividade do Norges Bank Investment Manager, que detem ações da maioria das empresas portuguesas e cujos standards estão alinhados com os da Directiva.

Concluimos que os accionistas estão agora melhor capacitados para pressionar as empresas a adoptar políticas mais sustentáveis através do seu envolvimento e que ambos os lados beneficiam. As empresas portuguesas, em particular, podem ver melhorias em termos de transparência e remuneração, apesar da estrutura acionista e dos órgãos de administração poderem constituir uma barreira ao envolvimento.

Palavras-chave: Diretiva dos Direitos dos Acionistas, Envolvimento Acionista, Governo Societário, Sustentabilidade.

JEL: G23, G28, G32, G38.





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## Abbreviations Index

COB – Chairman of the Board

ESG – Environment, Social and Governance

PSI-20 – Portuguese Stock Index

S.A. – *Sociedade Anónima* (Anonymous Society)

SGPS – *Sociedade Gestora de Participações Sociais* (Social Investment Management Company)

## CAPÍTULO 1

# Introduction

Following the 2007 financial crisis, the downsides of excessive risk taking and implementation of short-term strategies were brought to light. So History would not repeat itself, a new Shareholders' Rights Directive was written, encouraging shareholders to have an active role in the companies' business and hold them accountable.

This thesis aims to understand the new directive, the motivation behind it and the potential impact in corporate governance and investment intermediaries' practices, answering the question *how much will the new Directive change companies and shareholders' behaviours, particularly for the Portuguese top companies?*

### 1.1. The Shareholders' Rights Directive II

The new Shareholders' Rights Directive aims to encourage investors to get involved in the companies whose shares they hold to promote sustainable corporate governance practices and long-term oriented strategies. In order to do so, the Directive dismantles what are considered to be the standing barriers to shareholder active ownership and engagement, and calls for an increased level of transparency by institutional investors, asset managers and other investment intermediaries in terms of shareholder information and voting. The new directive also seeks to strengthen the shareholders' control over the remuneration of the board.

In this thesis, we analyse the potential influence of the Directive in the companies and investment intermediaries' practices on engagement, active ownership, transparency, and board remuneration. We also consider the impact of the Directive on the companies' share prices via engagement, active ownership, and policy disclosure. We also discuss the drivers for the success of engagement and how the Directive aims to catalyse them. Our analysis is based on academic studies.

Overall, we recognise significant gains to the companies and investors when engagements are actioned. The Directive seems to capture the several components of engagement and the factors that makes it thrive, and therefore representing a valuable tool for investors and firms to use and benefit from.

## 1.2. The Directive's Transposition into Portuguese Law

The new directive was transposed into law in August 2020, becoming partly effective on 3 September 2020. Parts of the new law did not defer further from the recommendations set in the past, but what once was voluntary is now obligatory.

To assess the possible impacts of the Directive in the Portuguese market, we took a closer look at the companies listed in the main reference index of the Portuguese stock market, analysed their current practices related to the new directive, as well as shareholder structure, and the proposals voted in the general shareholder meetings and their respective outcomes. In order to do so, we considered the *Relatório e Contas* over the year 2019 – a document annually produced by the companies and shared with its investors, detailing the companies' finances and activities over the year – and the proposals and outcomes of the 2020 general meetings of each of the 18 companies tailored in the index.

To anticipate the behaviour of a shareholder “post-Directive”, we considered The Government Pension Fund Global, most commonly known as the Norwegian's oil fund, managed by Norges Bank, a shareholder whose guidelines already comply with the new directive. This fund holds stock of many Portuguese companies and imposes high standards in terms of long-term corporate sustainable and the incorporation of environmental, social, and corporate governance factors in the companies' businesses. We analysed the fund's guidelines and how they translate into voting and engagement, particularly for the Portuguese companies the fund holds stock of.

The Portuguese companies listed in the index show decent levels of compliance and do not build concrete barriers to shareholder engagement. However, the shareholder structure of many listed companies might not make it easy to engage or make a statement through voting, as firms frequently have dominant shareholders holding most of the companies' stock.

Many shareholders seem to disagree with the companies' remuneration policies and vote against them in the general meetings. In fact, the set of recommendations on remuneration seem to be the least fulfilled by the listed firms.

The directive transposed into law should encourage shareholders to engage if they disagree with the companies' present course. If the shareholder structure still constitutes a barrier to engagement, different shareholders should now consider teaming up and demonstrate their view and how they can benefit the firms in the long-term. Conversely, the new law allows for more shareholders to behave like the fund managed by Norges Bank by establishing clear guidelines, operating on complete disclosure, engaging the companies on environmental, social, and

corporate governance matters. Thereby, these investors will hold the companies accountable and contribute for their sustainability, through proper governance and remuneration models, for example.



## CHAPTER 2

# The New Shareholders' Rights Directive

### 2.1. Context

In 2017, the European Parliament and the Council of the European Union issued the Shareholders' Rights Directive II ("The Directive"). This ruling is an amendment to the Directive of 2007 that defined the rights of shareholders of listed companies in the European Union.

The new directive follows the 2007 financial crisis, where the weaknesses of the companies' short-term strategies, namely the excessive exposure to short-term risk, were uncovered. These short-term strategies were usually backed by shareholders' who overlooked the consequences of exceeding risk-taking (Ferrarini and Ungureanu, 2014; Lehuedé, Kirkpatrick, and Teichmann, 2012; OECD, 2011). This amendment aims to encourage investors to act on these issues and, in particular, pressure the companies to define long-term strategies with a compatible, balanced short-term risk tolerance and ultimately promote the companies' sustainability.

Once the Directive is transposed into domestic law, barriers to shareholder engagement will be dismantled, more transparency will be required, and shareholders will be guaranteed the control over the companies' remuneration policies.

Shareholder engagement – the shareholders' involvement in the companies' decisions – is usually associated with responsible investment. The United Nations Principles for Responsible Investment (UNPRI) – the six principles that set a global standard for responsible investments – define "responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership". The goal is to assess the risk and opportunities by analysing the ESG factors that are relevant to the company.

Among the six principles that the UNPRI signatories commit to, Principle 2 states that PRI signatories "will be active owners and incorporate ESG issues into [their] ownership policies and practices". Principle 3 also states that UNPRI members "will seek appropriate disclosure on ESG issues by the entities in which we invest".

ESG considerations can be included in various ways. Many times, it is wrongly perceived as simply negative screening, where the investment universe is reduced by excluding certain industries or services that present unappealing characteristics. Even though, negative screening

is still the most often used ESG investing approach, it can be limitative and may overlook investment opportunities as it rejects a firm entirely for presenting one unfavourable attribute. In turn, ESG integration is a more complete, comprehensive form of ESG investing. In this style of investment, the environmental, social and governance factors are incorporated in the analysis, not as a way of narrowing the options or a complementary assessment, but considering these elements alongside the traditional financial factors included in the investment decision process. It is also a way to assess risk. In fact, around 67% of investors analyse climate risk through ESG integration (Krueger, Sautner, and Starks, 2020).

## **2.2. Active Ownership Promotion**

ESG Integration entails a long-term oriented approach, which is in line with the goals of the Directive. The pillar of ESG integration that the Directive aims to catalyse is active ownership, the use of ownership rights to influence corporate behaviour. Common forms of active ownership are voting companies' proposals in meetings and engaging, if they believe there is room for improvement. For instance, a company can have much value and constitute a great investment opportunity; however, it may not have the best ESG practices. Instead of setting that company aside and losing the investment opportunity (which would have been the option if the approach was strictly negative screening), the investor may choose to engage with the company, propose changes and, in case they respond positively, have the possibility to add value to the firm and, consequently, to its investors.

The Directive recognised the power investors can have over companies' behaviour and encourages institutional investors and asset managers that often hold a significant portion of the listed companies' shares to play an active role in the companies' long-term plans through their voting right. Many times, large investors, such as institutional investors and asset managers who invest on behalf of others, hold a significant part of a companies' stock; however, they do not use their voting right to decide over the companies' ruling. Particularly, this may be the case for several passive managers. In fact, prior to the financial crisis, shareholders seemed to underappreciate the value of their voting rights, possibly merely accepting the views of the proxy advisors, devoid of the wish to actively shape the companies' strategies through their vote (Lehuedé, Kirkpatrick, and Teichmann, 2012).

The new Directive requires institutional investors and asset managers to act transparently by annually disclosing their standards regarding their involvement in the companies' decisions, as well as the positions they assumed when voting. Given this obligation, these large investors



should not neglect their commitment, as potential future clients may take their voting track-record into consideration when deciding which investment company to trust their savings with. In particular, the Directive requires institutional investors to disclose the agreements they may have with asset managers and how they pressure the managers to take a long-term approach to investment given the profile of the investor. In turn, the asset manager should provide the institutional investors with sufficient information that allows them to evaluate if the manager can fulfil the investor's requirements, their strategies permit effective shareholder engagement and how they anticipate dealing with possible conflicts of interest during the engagement process.

The Directive aims to eliminate the standing barriers to active ownership. One example of an obstacle is the added costs charged for cross-border voting, which often is an impediment to active ownership by foreign investors (OECD, 2011b). In turn, the Directive prohibits differentiation between charges to domestic and foreign investors, being only allowed if the difference between the fees reflect the variation in the actual expenses sustained by intermediaries.

Some academic studies also acknowledged the investors' influence over companies, and concluded that firms boycotted by investors for not complying with green guidelines see their share prices fall as fewer investors are willing to hold their stock. At a certain point, the difference between the stock price of green companies and non-green companies would make it beneficial for the non-green companies to improve their policies in order to meet the standards of green investors (Heinkel et al, 2001; Landier and Lovo, 2020). These cases show the investors can sway corporate behaviour by signalling their willingness to sell the company's stock, if the company does not follow their green standards.

However, disinvesting from a company because it does not abide by the highest standards is not an option for the passive managers who are obliged to invest their assets in a pre-determined manner and, therefore, do not have the option to sell their shares as long as it tailors the reference index. By tearing down the barriers to engagement and active ownership, the Directive encourages passive fund managers to push for the changes they believe will benefit the company's performance. Evidence suggests that large passive fund managers in the United States already take the advantage of significant size of their holdings to influence corporate behaviour, through voting and engagement (Appel, Gormley and Keim, 2016). As typically long-term investors, they are more strongly motivated to engage, since they will be more exposed to the companies' decisions (Krueger, Sautner, and Starks, 2020; O'Sullivan and Gond, 2016).

Even when disinvestment is a possibility, most investors do not seem to take that road. According to Krueger, Sautner, and Starks (2020), only a fifth of the investors choose to disinvest over climate risk concerns - the majority engages with the company. Large, mature, and underperforming companies are more likely to be engaged, particularly if the institutional investor holds a considerable number of shares in the company. Companies whose reputation is at risk or show poor governance are even more likely to be engaged (Dimson, Karakas and Li, 2015). Conversely, sectors that are strongly regulated or less exposed to the environment are not often targeted (Hoepner et al., 2019). Client demand is also a meaningful motivation for institutional investors to engage companies (O’Sullivan and Gond, 2016).

### **2.3. Performance Benefits from Engagement**

The Directive also believes that the shareholders engagement benefits the companies’ performance, not only in financial terms, but also in non-financial terms such as ESG factors. Regarding ESG investing, in particular ESG integration, countless academic studies have made the case that considering ESG factors in investment decisions can bring profit to the companies by bolstering their long-term returns (Eccles, Ioannou, and Serafeim, 2014; Friede, Busch and Bassen, 2015; Khan, Serafeim, and Yoon, 2016, to name a few). The results seem to agree with the thesis that for 50% of the cases there is a positive impact on the performance, for 40% there is little to no impact and for only 10% of the cases ESG integration does not pay off (Friede, Busch and Bassen, 2015).

In line with these results, the 2019 Russell Annual ESG Manager Survey reveals that 35% of the responding asset managers employed ESG integration to seek “superior risk-adjusted return”, 7% more than the previous year. The same survey shows that only around 3% of the respondents are citing ethical reasons, which confirms the argument that ESG integration is not solely the application of moral considerations, but an approach to uncover investment opportunities and achieve higher returns. Additionally, one of the top key motivations mentioned by the respondents was the opportunity to influence corporate behaviour, where engagement plays a pivotal role.

Nonetheless, shifting a company’s course may also generate appealing long-term risk-adjusted returns as growing academic evidence suggests that engagement and active ownership might be the largest contributors to the growing performance achieved by ESG integration. Dimson, Karakas and Li (2015) conclude that ESG engagement pays off, producing a “cumulative size-adjusted abnormal return of +2.3% over the year following the initial

engagement”. Indeed, if the engagement is successful, the cumulative abnormal returns generated are of +7.1% over the one-year period. For engagements on corporate governance concerns, this value can be, on average, +8.6% and +10.3% if they are climate change themed. Climate risk is a high concern for many investors that once tackled can boost the company’s performance. Krueger, Sautner, and Starks (2020) argue that better risk return can be attained by reducing climate change costs and portfolio risk and that can be well achieved through engagement. Becht et al. (2009) also claim that abnormal returns of +4.9% over one year experienced by a fund invested in UK equity were achieved largely due to engagement. On the other hand, unsuccessful engagements of any sort seem to produce no negative effect (Dimson, Karakas and Li, 2015).

By removing the barriers to engagement, the Directive is making it easier for investors to influence corporate behaviour and be rewarded with risk-adjusted returns as result. The evidence shows that engagement drives corporate responsibility and promotes long-term profits (Dimson, Karakas and Li, 2015). Therefore, the Directive can have a positive impact on share prices via engagement.

The introduction of regulation has been observed to help catalysing engagement in European countries by O’Sullivan and Gond (2016). The most developed market in terms of engagement are the UK and Dutch which have policies in place since 2010 and 2006, respectively. Additionally, improvements have been noticed in the French market since the introduction of the 2015 energy transition law (article 173-VI of Law 2015-992). Thus, in the same way, the Directive can influence the investors in other European Union nations, motivating them to engage if they believe they can create value to the firms.

Landier and Lovo (2020) argue that socially responsible investments have no real environmental and social impact if they choose to invest solely in environmentally cautious companies; however, they do if they purchase enough stock to enforce the reduction of carbon emissions. Therefore, if a fund is looking to positively impact the world, they cannot do it by only investing in the compliant companies, but choosing firms where it can potentially have the most impact and influence corporate behaviour through engagement and active ownership.

## **2.4. Drivers for the Success of Engagements**

The United Nations’ Principles of Responsible Investment tries to identify the reasons for the accomplishments of engagement by distinguishing between communication dynamics, the discussion between investors and companies; learning dynamics, the knowledge diffused

between both parties in that discussion; and political dynamics, the relationship that evolves from the engagement. The Directive understands the role these dynamics play; therefore, its provisions seek to facilitate their works.

The communication dynamics can take many forms. The most preferred approach among investors seems to be private conversations with the firm's executives (Becht et al., 2009; Krueger, Sautner, and Starks, 2020). These conversations may take place over the phone or in person. Other approaches are writing letters addressed to the board and asking questions or making proposals in the annual shareholders' meeting. Shareholders may also contact other shareholders to discuss their goals and request support (Becht et al., 2009).

In order to facilitate these dynamics, the Directive dictates that companies have the right to request information on the shareholders' identity, so they can reach their shareholders directly. There is also the understanding that the communication between investors and the company can be hampered by the usually complex chain of intermediaries that make the bridge between them and, consequently, hinder the shareholders' engagement (Directive (EU) 2017/828, Lehuedé, Kirkpatrick, and Teichmann, 2012). This situation was addressed in the Directive as well, by ruling that the information requested to the intermediaries by any of the parties should be delivered "without delay".

The learning dynamics is the direct consequence of communication and it works in favour of both the company and the investor. On one hand, it allows the company to explain the policies implemented and invites the investors to understand their current views. It also allows the company to acknowledge the matters the investors find more relevant and to identify improvement points that can potentially benefit the firm based on their feedback. On the other hand, the investor can have their concerns heard and request further details in order to cast an informed vote in the board meetings, especially if they hold significant number of shares. Shareholders who are informed and have the possibility to exercise their voting rights are most capable of pursuing their best interests (Lehuedé, Kirkpatrick, and Teichmann, 2012).

The Directive's bid to ease the learning dynamics is to increase transparency. Institutional investors, asset managers, financial intermediaries and voting consultants are expected to act transparently and, in order to do so, they should disclose the policies in place that will affect their decisions as well as the positions assumed in the past. In particular, institutional investors and asset managers should also include their investment strategy, how they incorporate ESG factors and their positions toward engagement as well as voting. These policies should be made available to the public on their websites and upon request and free of charge, so they can be accessed by all investors (current and potential). They are also expected to disclose any conflicts

of interest, potential or real, how they may affect the business and what is the plan in place to minimise and manage them. If they do not meet the requirements stated in the law, they should provide an explanation of why they did not comply (a practice also known as “comply or explain”). On the other hand, socially responsible activities are also expected to increase with the compulsory disclosure of non-financial information (Jackson et al. 2020).

Signatories of the Principles for Responsible Investment were already required to report annually the practices in place for the integration of environmental, social and governance factors in their investments, as well as all voting decisions and engagement activities. Nonetheless, O’Sullivan and Gond (2016) observe that investors are still not transparent enough, possibly since most regulation is still optional. Once the Directive is transposed into the respective domestic laws, disclosure will be a requirement to every institutional investor which have their registered office or head office in the European Union, as well as the intermediaries who provide services within the Union.

The political dynamics have been proved to be beneficial to future engagements, as success is more likely if there had been a successful engagement previously (Dimson, Karakas and Li, 2015). Additionally, client loyalty driven by ESG activities appears to mitigate firm risk.

Moreover, there is evidence of positive outcomes of collaborations among investors (Becht et al., 2009; Dimson, Karakas and Li, 2015; Lehuedé, Kirkpatrick, and Teichmann, 2012), as different investors influence the companies in distinct ways. According to Dimson, Karakas and Li (2015), while asset managers usually play an important role in governance related engagements, their contribution is less relevant in environmental and social engagements. However, public opinion is, especially if the company faces reputational concerns. Therefore, the likelihood of a successful engagement may increase if different parties are involved.

Furthermore, it is observed that asset managers, pension activists and SRI funds purchase more shares of the company’s stock after these types of successful engagements, which is not noticed for successful governance engagements. O’Sullivan and Gond (2016) claim that investors with different levels of ESG integration at the firm and engagement processes at different development stages create distinct types of value through engagement. On one hand, sustainably or ethical-driven investors who preferably exclude non-ESG compliant firms instead of engaging, create more value on an environmental and social level. On the other hand, investors with low ESG integration levels who engage due to regulatory or client requirements create stewardship value by complying with the client’s requests and signalling value by indicating the companies what is in the investors’ interest; however, they do not generate much knowledge and collaborative values, since they engage for compliance purposes only, having

little interest in gaining expertise on ESG integration or adding value to the investment by joining forces with other shareholders.

The Directive also acknowledges the value of the cooperation between shareholders by advising that personal shareholder data may be processed with the intention of allowing shareholders to work together.

## **2.5. Governance Engagements and Control Over Remuneration**

Investors believe the most critical risks they face are traditional financial, governance, social, climate and environmental, in this order (Krueger, Sautner, and Starks, 2020). Given this, it is not surprising that corporate governance is the most popular theme for engagements. In fact, investors believe the concerns over corporate performance is a meaningful reason to engage (O’Sullivan and Gond, 2016); however, most engagements over corporate governance are driven by executive remuneration and board structure concerns (Hoepner et al., 2019; O’Sullivan and Gond, 2016) and there is evidence that shareholders can effectively monitor the board remuneration policies through engagement (Lehuedé, Kirkpatrick, and Teichmann, 2012).

In line with this concern, one of the targets of the Directive is to give the shareholders the control over the company’s remuneration policies, with the intuitive of guaranteeing its sensibility in the context of the company and its long-term interests and sustainability at heart. This objective is in line with the OECD Principle VI.D.4. which states that remuneration policies should be in line with the companies and shareholders’ long-term interests. The policies must be voted and approved in board meetings, and if they are changed, an explanation of how they express the shareholders’ views should be provided. Aligned with the OECD (2009b) guidelines, the remuneration policies should provide details on how is adapted to performance and risk; it should be unambiguous and avoid technical terms, so it is easily comprehended by the shareholders. Intelligible policies are crucial for the success of the engagements over remuneration policies as active and informed shareholders who have an effect on the board have been deemed essential to the success of these engagements (Lehuedé, Kirkpatrick, and Teichmann, 2012).

In order to promote transparency, a report must be made available providing full disclosure of the remuneration for members of the board, as well as the explanation of how it fits into the company’s long-term strategy and how it complies with the companies’ remunerations policy. This report should be presented and approved in the general meetings and made available to the

public on the firm's website, alongside the voting results and approval date.

The Directive also provides guidelines on the incentives received by the board based on their performance. This should be calculated using financial and non-financial factors, including ESG factors where applicable. Lehuedé, Kirkpatrick, and Teichmann (2012) conclude that prior to the financial crisis in 2007, even though most corporate governance guidelines advised that incentives should be in line with the companies' long-term strategies, actual policies appeared to promote short-term risk-taking. Moreover, shareholders seem to endorse these policies. However, Ferrarini and Ungureanu (2014) argue that institutional investors now prefer firms to have long-term performance related incentives. The Directive reinforces the importance of long-term oriented incentives and its disclosure to the stakeholders, so they can engage, if they believe the policies on remuneration are not sensible in the context of the firm.

## **2.6. Environment and Social Engagements**

Even though most engagements are over corporate governance concerns, investors believe environmental and social issues are as relevant and point that previous corporate governance engagements motivate future environmental and social engagements (O'Sullivan and Gond, 2016).

Comparing with environmental or social themed engagements, corporate governance related engagements generally take some resistance to be accepted by the companies; however, they are the fastest to be implemented (Hoepner et al., 2019), possibly because they typically come down to administrative decisions, whereas environmental and social changes usually require more steps and greater expenses (Dimson, Karakas and Li, 2015). Nevertheless, according to CFA Institute's *ESG Integration in EMEA: Market, Practices, and Data* report, even though corporate governance is still one of the biggest concerns when it comes to investing in a firm, investors believe that environment factors will play a very relevant role in the future.

Krueger, Sautner, and Starks (2020) conclude that climate risk is frequently discussed in shareholders' meetings, where about 33% of investors have proposed action to protect the firm from that risk and about the same percentage voted against proposals motivated by climate concerns. Since it is difficult to find other ways to protect companies against climate risk, the investors turn to engagement has an instrument to enforce change (Hoepner et al, 2019). Krueger, Sautner, and Starks (2020) also observed that most firms are receptive to engagements over climate risk, even though some do not act upon appreciating the matter and only about a quarter of the engagements were successful. On the other hand, the likelihood of success of an

engagement, particularly if it is environmental or social moved, is also affected by the present context of each company, being higher if companies are seeking to protect their reputation, have capacity to make room for improvements and “live economies of scale” (Dimson, Karakas and Li, 2015).

The flaws of the risk management systems resulting of inadequate corporate governance were also exposed with the crisis (Lehuedé, Kirkpatrick, and Teichmann, 2012). Evidence shows that making efforts to mitigate risk does play in favour of the company, particularly, if associated to climate change. Environmental engagements, especially related to climate change, reduce the possibility of the firm’s value declining in the event of negative variations in the market (Hoepner et al, 2019). Furthermore, if a company is proactive on climate change related engagements, it sees its cost of debt lower (Dimson, Karakas and Li, 2015) as investors are less willing to lend money to companies with greater climate risk, which will reduce the companies’ leverage (Ginglinger and Moreau, 2019).

Risk can also be managed by avoiding “problematic firms” (Krueger, Sautner, and Starks, 2020). However, companies are more likely to agree to implement change when facing legal, particularly on environmental and social issues (Dimson, Karakas and Li, 2015). Conversely, these types of controversies are usually the motivation for the engagements to these companies (O’Sullivan and Gond, 2016).

Even though climate change is not mentioned explicitly in the Directive, it is known that the European Union takes tackling climate change very seriously. By encouraging investors to pressure companies to take environmental factors into consideration, they are letting private investment make way to a more sustainable world by investing in environmentally friendly energy and technology and sponsoring industrial innovation. These ideas are set out in the European Green New Deal (COM/2019/640 final) that aims to transform the economy and society.



## **Deep Dive into Transposition of The Directive into Portuguese Law**

### **3.1. Context**

The Directive was transposed into law and published in the Portuguese Republic Diary in August 2020 and became effective on 3 September 2020. The new law repealed the one that transposed the first shareholders' rights directive issued by the European Parliament and the Council of the European Union in 2007 (Lei n.º 28/2009).

Many sections of the new law were already included in the set of recommendations of the Portuguese securities market regulator, although they were not mandatory in the past.

To assess the possible impacts of the Directive in the Portuguese market, we analysed *the Relatório e Contas* over the year 2019, as well as the proposals and respective voting outcomes of the 2020 general meetings of the 18 firms listed in the main reference index of the Portuguese stock market, PSI-20. The index is comprised by the twenty largest companies in market capitalisation and share turnover from all firms listed in Euronext Lisbon Stock Exchange. For the last years, the index has been composed by eighteen companies only, as no other company met the requirements to be tailored in the index. As at 31 December 2019, the index was composed by the following companies:

- Altri, SGPS, S.A. ("Altri")
- Banco Comercial Português, S.A. ("BCP")
- Corticeira Amorim, SGPS, S.A. ("Corticeira Amorim")
- CTT – Correios de Portugal, S.A. ("CTT")
- EDP – Energias de Portugal, S.A. ("EDP")
- EDP Renováveis, S.A. ("EDP Renováveis")
- Galp Energia, SGPS, S.A. ("Galp")
- Ibersol, SGPS, S.A. ("Ibersol")
- Jerónimo Martins, SGPS, S.A. ("Jerónimo Martins")
- Mota-Engil, SGPS, S.A. ("Mota-Engil")
- NOS, SGPS, S.A. ("NOS")
- NOVABASE, SGPS, S.A. ("NOVABASE")
- PHAROL, SGPS, S.A. ("PHAROL")

- REN – Redes Energéticas Nacionais, SGPS, S.A. ("REN")
- Semapa – Sociedade de Investimento e Gestão, SGPS, S.A. ("Semapa")
- Sonae, SGPS, S.A. ("Sonae")
- Sonae Capital, SGPS, S.A. ("Sonae Capital")
- The Navigator Company, S.A. ("Navigator")

The *Relatório e Contas* is a document annually produced by the companies and shared with its investors, detailing the companies' finances and activities over the year. Our analysis focused on the recommendations of the security market regulator related to the Directive; we intended to understand if they were already followed by the top Portuguese companies, and, in case they were not, the reasoning given for so. By analysing the proposals and respective voting outcomes of the 2020 general meetings, we aimed to appreciate how the shareholders make use of their active ownership rights prior to the issuance of the Directive.

The Portuguese market is small to some extent with only 57 listed companies at the end of 2019. In most firms, there is a dominant shareholder, frequently a family, similarly to other European countries (Dam and Scholtens, 2013; OECD, 2011). For most of the top listed companies, this shareholder holds more than 25% of the firm's shares and, for over a half of them, more than 50% (see table 1). In spite of the recommendations of the securities market regulator, which advises companies to have an independent board of directors, these dominant shareholders tend to have representatives in the boards. In fact, this is the case for all top companies, but one (see table 1).

The Portuguese legal monitoring is considered to have a mature framework and to grant shareholders sufficient power over executive and board remuneration (OECD, 2011). Listed companies are required to abide by a lengthy list of disclosures and compliance is monitored on a "comply or explain" basis - this information is disclosed in each company annual *Relatório e Contas*.

According to Católica Lisbon School of Business and Economics (2014), from 2010 to 2013, the Portuguese listed companies have become increasingly more compliant with the securities market regulator recommendations, and most companies demonstrated high levels of regulation abidance in 2013. The level of compliance was even higher if the firm was listed in PSI-20. This supports the argument that larger and more liquid firms tend to follow the suggested regulations, possibly because the Portuguese corporate governance code has been created to fit large corporations, and not so much smaller firms (Alves and Mendes, 2009).

**Table 1 – Dominant Shareholders of The Top Portuguese Companies'**

COMPANY	DOMINANT SHAREHOLDER	% VOTING RIGHTS	BOARD REPRESENTATIVE
ALTRI	Promendo Investimentos, S.A.	20.8%	Yes
BCP	Fosun International Holdings Ltd (Fosun Group)	27.3%	Yes
CORTICEIRA AMORIM	Amorim Investimentos e Participações, SGPS, S.A.	51.0%	Yes
CTT	Manuel Carlos de Melo Champalimaud	13.1%	Yes
EDP	China Three Gorges Corporation	23.3%	Yes
EDP RENOVÁVEIS	EDP – Energias de Portugal, S.A. – Sucursal en España	82.6%	Yes
GALP	Amorim Energia B.V.	33.3%	Yes
IBERSOL	ATPS - SGPS, S.A.	54.9%	Yes
JERÓNIMO MARTINS	Sociedade Francisco Manuel dos Santos, SGPS, S.E.	56.1%	Yes
MOTA-ENGIL	FM – Sociedade de Controlo, SGPS, S.A.	66.4%	Yes
NOS	ZOPT, SGPS, S.A.	52.2%	Yes
NOVABASE	<i>Shareholders' agreement</i> <sup>(a)</sup>	40.3%	Yes
PHAROL	Telemar Norte Leste S.A.	10.0%	No
REN	State Grid Corporation of China	25.0%	Yes
SEMAPA	Sodim, SGPS, S.A.	72.1%	Yes
SONAE	Efanor Investimentos, SGPS, S.A.	52.9%	Yes
SONAE CAPITAL	Efanor Investimentos, SGPS, S.A.	63.7%	Yes
NAVIGATOR	Semapa - Sociedade de Investimento e Gestão, SGPS, S.A.	69.4%	Yes

<sup>(a)</sup> *Shareholders' agreement between José Afonso Oom Ferreira de Sousa, Luís Paulo Cardoso Salvado, Álvaro José da Silva Ferreira, João Nuno da Silva Bento e Pedro Miguel Quinteiro Marques de Carvalho.*

In our analysis, we observed that most companies in PSI-20 comply with the recommendations related to the Directive or provide comprehensive explanations on the reasons for not fulfilling the proposal.

The Directive will certainly change shareholders' practices, particularly in terms of active ownership. To anticipate the behaviour of a shareholder "post-Directive", we considered a shareholder that has been proceeding according to the Directive even before its design: The *Government Pension Fund Global* ("the Fund" hereafter), most commonly known as the Norwegian's oil fund, managed by Norges Bank. The Fund holds about 1.5% of the listed firms across the globe. Among them are 20 Portuguese companies, 17<sup>1</sup> of which are tailored in the PSI-20. The Fund's main purpose is to hedge the current oil revenues in order to promote Norway's economic sustainability for future generations. Thus, it is not surprising that the highest standards are imposed to the companies it is invested in. The Fund's principles are very

<sup>1</sup> NOVABASE, SGPS, S.A. is the only company in PSI-20 the Fund does not hold shares of.

much aligned with the Directive, as they demand sustainable long-term strategies and the consideration of ESG factors, particularly prime corporate governance. An independent ethics committee is responsible to analyse every company the Fund might be interested or already invests in and liaise with the Norges Bank who will act, either by investing, disinvesting, or engaging. In order to promote these standards, the Fund commits to engage and use of their voting rights.

### **3.2. Active Ownership Promotion**

The main goal of the Directive was to incentivise shareholders to get involved in the companies' decisions through engagement and make use of their voting rights to influence corporate behaviour. The barriers removed by the Directive would certainly be beneficial to investors who want to make profit out of their investments while also keeping their investments in the Portuguese companies. Given the small size of the Portuguese market, these investors would have to choose from a pool of very few possibilities. If they opt to disinvest from a company, they may not have many options of replacement if they want to keep a diversified portfolio. In these cases, engagement is the tool to use. If the investor recognises flaws in the companies' policies, which they believe will affect their long-term performance, they may engage, open a conversation in order to reach a compromise. If the engagement fails, the company can ultimately use their right to vote to make a statement about their views.

The Fund keeps conversation with about one thousand companies, focusing on the world's biggest corporations over ethical and sustainability concerns. The ethics committee assesses each company against the Fund's guidelines and standards and makes suggestions to Norges Bank. The manager may also recommend courses of action. Due to this, in 2016, EDP was added to the Fund's "watch list" for using coal-based energy.

The securities market regulator recommends that listed companies themselves should encourage shareholders to participate and vote in the general meetings. They also advise firms to refrain from producing regulation that hampers the involvement of the shareholders and instead allow alternative ways to take part in general meetings such as mail-in or electronic voting. According to our analysis, only 2 companies confirmed to have systems in place to allow shareholders to participate in the meetings remotely in 2019 (see table A.1 of Appendix A). Some reasons provided for not complying with the recommendation are concerns over the security of the information discussed in the meetings and no shareholder having ever requested remote access to the meetings. Nevertheless, in 2020, 10 more companies allowed their shareholders to participate in the meeting remotely as a precautionary measure regarding the

COVID-19 pandemic. On the other hand, all companies provide mechanisms for mail-in and electronic voting, even though the latter is not available at some companies in 2020 (see table A.1 of Appendix A).

In terms of voting rights, all top companies adopt the “one share, one vote” policy, except one (see table A.1 of Appendix A). However, 3 companies limit the number of votes per shareholder and 3 others require a quorum for some voting exercises (see table A.1 of Appendix A). The companies who implement the former also claim that no shareholder reaches the limit number of shares, therefore the cap is not limiting the voting rights; the reasoning given for the latter position is to guarantee decisions are made by a representative portion of shareholders and protect the minority shareholders, so they can take part in the decisions. The new law does not prevent these practices. Norges Bank supports the “one share, one vote” policy and does not endorse voting caps. In fact, the manager voted against the renewal of the voting cap for BCP in 2016 and 2018 and EDP in 2019 on behalf of the Fund.

In general, the top Portuguese companies seem to encourage shareholder participation in the meetings and do not have regulations in place that hampers their involvement. On the other hand, in the view of OECD (2011), the board structure of many Portuguese companies may constitute an obstacle to shareholders’ engagement. Since most companies have a dominant shareholder represented at the board of directors, this shareholder might have the ability to decide the companies’ policies alone, which could explain the low levels of shareholder engagement to 2009.

Nevertheless, even if the final decision comes down to one shareholder who is represented in the board, it does not overturn the influence of an engagement. As in the previous section, engagement starts the dialogue and the views of both sides are shared; the shareholders and the executive representatives learn about what the other believes could improve the business and, consequently, better its performance, which will ultimately benefit both parties. However, if the executive chooses to ignore the engagement efforts, the shareholder could decide to disinvest which could be negatively reflected on the firm’s equity. In both cases, engaging would have been a valuable option.

The Directive, and consequently the new law, calls for transparency. According to our analysis, all top Portuguese companies claim to implement processes to disclose relevant information to the shareholders and investors, therefore they believe the shareholders will make informed decisions when it comes to voting (see table A.1 of Appendix A). All top companies already make the record of the discussions in the general meetings available on the companies’ website.

The new law stresses the obligation of businesses that invest assets on behalf of other investors or take part in the chain of intermediaries and voting consultants to act transparently. Norges Bank seems to behave this way by disclosing all investment decisions, standards and guidelines made on behalf of the Fund on their website for public consultation. Following the new law, other investment managers are required to do the same.

OECD (2011) points out the little disclosure by listed companies to 2009 as another possible explanation for the lack of shareholder engagement in Portugal. The top listed companies seem to have since made efforts to increase the level of disclosure, which could have a positive impact on shareholder engagement.

Additional costs to foreign investors may also discourage their engagement in domestic companies, therefore the new law requires that distinction in charges should be duly justified and the difference between the fees must reflect the variation in the actual expenses of the services provided. This measure may encourage more non-domestic investors to engage Portuguese companies, although OECD (2011) determines that foreign investors engaged more than domestic investors.

**Table 2 – 2020 General Meeting Statistics**

COMPANY	ATTENDANCE	FREE FLOAT	FUND'S VOTING %	AVERAGE APPROVAL
ALTRI	81.2%	29.3%	2.4%	99.0%
BCP	61.3%	47.8%	1.3%	99.1%
CORTICEIRA AMORIM	83.1%	26.3%	1.0%	98.5%
CTT	44.4%	62.0%	3.9%	99.5%
EDP	67.3%	44.9%	2.9%	98.1%
EDP RENOVÁVEIS	91.9%	17.4%	0.3%	99.2%
GALP	82.7%	45.6%	0.6%	98.9%
IBERSOL	86.5%	22.9%	1.9%	98.2%
JERÓNIMO MARTINS	84.2%	29.7%	1.1%	94.0%
MOTA-ENGIL	77.8%	28.0%	2.3%	98.9%
NOS	73.1%	43.6%	2.7%	96.5%
NOVABASE	68.6%	26.4%	-	90.6%
PHAROL	31.5%	74.1%	0.7%	99.6%
REN	62.3%	39.2%	1.4%	99.9%
SEMAPA	83.2%	20.8%	4.3%	97.9%
SONAE	74.2%	38.3%	0.7%	99.7%
SONAE CAPITAL	72.0%	26.5%	2.3%	99.4%
NAVIGATOR	79.7%	30.6%	1.4%	98.1%
<i>Average</i>	<b>72.5%</b>	<b>36.3%</b>	<b>1.7%</b>	<b>98.1%</b>
<i>Lowest Value</i>	31.5%	17.4%	0.3%	90.6%
<i>Highest Value</i>	91.9%	74.1%	4.3%	99.9%

Our analysis concludes that, on average, shareholders representing 72.5% of each companies' capital voted in the meetings. For 16 companies, this figure was higher than 60%,

while for the remaining 2 companies, it was lower than 45% (see table 2). Additionally, there seems to be a negative correlation between the companies' level of attendance and free float. This is also observed in Spanish companies (CNMV, 2020).

Most proposals voted in the general meetings are presented by the management; when proposals are presented by shareholders instead, that shareholder is dominant or has representatives in the board. The level of approval on average of the proposals for each company was above 90%. Norges Bank attended all meetings, but one<sup>2</sup>.

Our analysis observes that Norges Bank has voted against more times from 2018 to 2020 than in the previous three years (see table A.4 of Appendix A). The subjects voted against most times were remuneration, board elections and amendments to the companies' codes. Following the new law, a similar shift is expected for other investment managers.

### **3.3. Corporate Governance and Control Over Remuneration**

On remuneration policies, the Portuguese legal regulatory recommended similar proposes to the Directive's prior to its issuance. According to the regulator's guidelines, the policies should be in line with the companies' long-term interests, based on performance assessment, and discourage exceeding risk-taking. The policies should also provide details on the parameters stated before and be disclosed to the public in their annual reports.

The regulator also advises the constitution of a remuneration commission, independent to the board. According to our analysis, 16 out of the 18 top companies fulfil the proposal, appointing unbiased committees estranged from the board (see table A.2 of Appendix A). OECD (2011) believes the existence of these committees helps swaying the high influence of a dominant board when it comes to board remuneration.

Under the new law, the committee must present the remuneration policies to be voted in the general meetings. Then, shareholders can assess if the policy fulfils the requirements stated in the new law and vote according to their judgment. Revised versions of the policy must be submitted in the following general meetings to be voted if the previous plan has not been approved. Similar takeaways were already stated in the repealed 2009 law. Once again, this is already common practice for the top listed companies. Nevertheless, the remuneration policy is the proposal with lowest level of approval in half of the 2020 meetings and the second lowest in four other meetings (see table A.3 of Appendix A).

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<sup>2</sup> There is no record of Norges Bank having participated on 29 April 2020 Sonae Capital, SGPS, S.A. meeting, but had participated in the 2019 annual and special meetings.

Norges Bank voted against the proposal in 5 out of the 16 meetings the manager attended on behalf of the Fund (see table 3). The reasoning given was not complying with the Fund's guidelines of complete transparency, not providing a business rationale, the portion of pensionable income not being sensible, and part of the remuneration not being provided in the form of company shares locked in for over five years, even if the member leaves the company.

From 2017, the Fund has increasingly voted against the remuneration policies proposed in the general meetings (see table A.4 of Appendix A).

**Table 3 – 2020 General Meetings Outcomes on Remuneration Policies**

COMPANY	FOR	AGAINST	FUND'S VOTE	FUND'S VOTING %
ALTRI	98.0%	2.0%	For	2.4%
BCP	95.2%	4.8%	For	1.3%
CORTICEIRA AMORIM	95.8%	4.1%	Against	1.0%
CTT	99.2%	0.8%	For	3.9%
EDP	90.7%	0.0%	For	2.9%
EDP RENOVÁVEIS	99.4%	0.0%	For	0.3%
GALP	98.1%	1.9%	For	0.6%
IBERSOL	99.4%	0.6%	For	1.9%
JERÓNIMO MARTINS	97.3%	2.7%	Against	1.1%
MOTA-ENGIL	92.2%	7.8%	Against	2.3%
NOS	98.0%	1.9%	For	2.7%
NOVABASE	64.5%	35.5%	n/a	-
PHAROL	99.5%	0.5%	For	0.7%
REN	99.6%	0.4%	For	1.4%
SEMAPA	88.0%	12.0%	Against	4.3%
SONAE	98.9%	1.1%	For	0.7%
SONAE CAPITAL	100.0%	-	- <sup>(a)</sup>	2.3%
NAVIGATOR	93.2%	6.8%	Against	1.4%
<b>Average</b>	<b>94.8%</b>	<b>4.6%</b>		
<b>Lowest Value</b>	64.5%	0.0%		
<b>Highest Value</b>	100.0%	35.5%		

Figures may not sum to 100% for each company as abstention votes are not detailed on the table.

<sup>(a)</sup> There is no record of Norge Bank having attended this meeting.

Similarly, there were no significant changes from the previous Code on performance related remuneration received by the board members: it should be based on the actual performance of the member and not the company's, should discourage excessive risk-taking and be sensible comparatively to the fixed remuneration. Additionally, a significant portion of the variable remuneration should be deferred in time, to guarantee it is aligned with the long-term performance of the member (and, thus, dissuade from short-term risk-taking).

Even though all companies that sets a variable portion of the remuneration<sup>3</sup> believe that the defined percentage promotes the companies' sustainability, 5 of these do not define a portion

<sup>3</sup> Only Ibersol, SGPS, S.A. does not define a variable component of the remuneration.



differed in time and 2 estimate the percentage based on the company's performance (see table A.2 of Appendix A). The new law required the information on both portions of the remuneration, including the criteria applied, to be disclosed and suggests the option of the remuneration being refund to the company.

### **3.4. Environmental, Social and Corporate Governance Factors**

The new law, in line with the Directive, calls for shareholders to hold companies accountable on the incorporation of ESG factors into the firms' strategies and policies. Given the shareholder structure of the Portuguese companies, the dominant shareholders should consider this their own responsibility. Dam and Sholtens (2013) analysed European multinational companies (including Portuguese firms) and found that the higher the levels of shareholder dominance in the companies, the lesser the resources spent on corporate social issues. Their results suggest that dominant shareholders do not care for ESG concerns; however, it also suggests indirectly that, if they did, these shareholders could produce significant change.



## CAPÍTULO 4

# Conclusion

In this thesis, we aimed to understand the new Shareholders' Rights Directive, the motivation behind it and the potential impact in corporate governance and investment intermediaries' practices, answering the question *how much will the new Directive change companies and shareholders' behaviours, particularly for the Portuguese top companies?*

The Directive's main target is to encourage shareholders to be actively involved in the companies' business and to effectively influence the companies to adopt sustainable long-term strategies, so the risk of a financial crisis of the same dimension and repercussions as 2007 can be minimised. In order to do so, the Directive removes barriers to shareholder engagement, demands transparency and guarantees control over board remuneration.

Increased transparency from large investors and intermediaries, who should make available to the public their policies and practices as well as the motivation behind their voting decision, allows clients to hold large investors accountable, in turn. The outlaw of voting charges discrimination promotes active ownership of cross boarder investors and passive managers make use of engagement to demand change from a company.

Facilitating the identification of the shareholders by the companies enables direct conversations between the parties, makes the chains of intermediaries more efficient, and leads to more informed investors who can then share their concerns with the firms and cast more educated votes in the shareholders' meetings. In the same manner, different shareholders should be able to identify each other, so they can cooperate and thereby increase the chances of success of an engagement, as different types of investors have a distinct influence in the companies.

Giving shareholders control over the companies' remuneration policy ensures its sensibility in the context of the company, its long-term interests, and its sustainability.

On the other hand, the Directive can indirectly help creating value to the companies via engagement, as many academic studies support the thesis that ESG engagement generates pleasing risk-adjusted returns and that social and environmental changes can be achieved by forcing the companies to change and not by investing solely on compliant firms (Landier and Lovo, 2020).

In the same way the introduction of regulation has helped catalysing engagement in European countries, such as the UK and Netherlands (O'Sullivan and Gond, 2016), the

Directive can encourage the investors in other European Union nations to engage if they believe they have the ability to create value to the firms and promote its sustainability.

In Portugal, the transposition of the Directive into national law will make obligatory what now is mostly voluntary. Most recommendations were already followed by most listed companies; thus, the Directive might have a more direct impact on investors who then might influence the companies.

Even though all top Portuguese companies claim to implement processes to disclose relevant information to the shareholders and investors, the Fund still claims there is not complete transparency in the terms of remuneration. Increased disclosure might alert shareholders and encourage them to engage in order to upgrade the business.

In terms of remuneration, there is still a lot of room for improvement, and shareholder engagement could have a decisive role in upgrading the current policies by persuading companies to comply with the new law's principals.

The existence of a dominant shareholder might continue to be a reality for the top Portuguese companies; therefore, the investors should engage with them to influence decisions. Collaboration with other shareholders is also an effective tactic to convince the board or the dominant shareholder of the changes that will benefit the company. On the other hand, dominant shareholders should acknowledge their greater responsibility on determining the companies' paths, therefore they should strongly commit to the standards of the Directive.

Some Portuguese listed companies proved they value the participation of their shareholders by allowing shareholders to participate remotely for the first time in 2020. This might show the firms are willing to listen to their shareholders' concerns and therefore are permeable to engagement.

The Directive will also allow more institutional investors and asset managers to behave more like the Fund managed by Norges Bank, which commits to engage and use their right to vote to make a statement on their beliefs, particularly on corporate governance, but also on environmental and social matters. Conversely, these large investors will most likely define and share their standards and guidelines for clients to consult and guarantee there are followed, which can push these large shareholders into pressuring the companies they invest in, in turn.

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## Appendix A

**Table A.1 - Portuguese Securities Market Regulator Recommendations on Shareholders and General Meetings**

RECOMMENDATION	I.1.	II.1.	II.2.	II.3.	II.4.	II.5.
	All necessary information is shared with the investors	“One share, one vote” policy is in place	Mechanisms that hamper the deliberation (quorum) are in place	Mail-in and electronic voting is allowed	Participation in meetings remotely is allowed	Voting caps are in place
ALTRI	A	A	A	PA <sup>(a)</sup>		n/a
BCP	A	A		A		
CORTICEIRA AMORIM	A	A		A	<sup>(b)</sup>	n/a
CTT	A	A	A	A	<sup>(b)</sup>	n/a
EDP	A	A	A	A	<sup>(b)</sup>	
EDP RENOVÁVEIS	A	A	A	A		n/a
GALP	A	A		A	A	n/a
IBERSOL	A	A	A	PA <sup>(a)</sup>		n/a
JERÓNIMO MARTINS	A	A	A	A	<sup>(b)</sup>	n/a
MOTA-ENGIL	A	A	A	A		n/a
NOS	A		A	A	<sup>(b)</sup>	n/a
NOVABASE	A	A	A	A	<sup>(b)</sup>	n/a
PHAROL	A	A	A	A		A
REN	A	A	A	A	<sup>(b)</sup>	n/a
SEMAPA	A	A	A	A	<sup>(b)</sup>	n/a
SONAE	A	A	A	A	<sup>(b)</sup>	n/a
SONAE CAPITAL	A	A	A	A	A	n/a
NAVIGATOR	A	A	A	A	<sup>(b)</sup>	n/a
# COMPLIANT FIRMS	18	17	15	16 (18)	2 (12)	1
# EXPLAINING FIRMS	0	1	3	0	16 (6)	2

Key: A = Adopted, PA = Partially adopted, “empty” = Not adopted, n/a = not applicable.

Data shown as at 31 December 2019. Number of compliant and explaining firms in 2020 shown in brackets.

<sup>(a)</sup> Only mail-in voting allowed in 2019, but electronic voting mechanisms were put in place in the 2020 general meetings.

<sup>(b)</sup> Remote access to the meetings was allowed in 2020.

**Table A.2 - Portuguese Securities Market Regulator Recommendations on Board Composition and Remuneration**

RECOMMENDATION	III.1. An independent coordinator is appointed if the COB non-independent	III.4. The number of non-executive directors is higher the one third of the board and plural	V.2.1. Remuneration committee is independent	V.3.1. Variable remuneration incentivises the company's sustainability	V.3.2. Part of the variable remuneration is deferred in time	V.3.5 Variable remuneration is independent of the company's performance
ALTRI			A	A		A
BCP		A	A	A	A	A
CORTICEIRA AMORIM			A	A	A	A
CTT	n/a		A	A	A	A
EDP	n/a	n/a	A	A	A	n/a
EDP RENOVÁVEIS	A	A	A	A	A	A
GALP	A	A	A	A	A	A
IBERSOL	n/a	PA <sup>(a)</sup>	A	n/a	n/a	A
JERÓNIMO MARTINS		A	A	A		A
MOTA-ENGIL	A	A		A		
NOS				A	A	A
NOVABASE			A	A	A	
PHAROL		A	A	A	A	A
REN		A	A	A	A	A
SEMAPA			A	A		A
SONAE	A	A	A	A	A	A
SONAE CAPITAL	A	A	A	A	A	A
NAVIGATOR		A	A	A		A
# COMPLIANT FIRMS	5	10	16	17	12	15
# EXPLAINING FIRMS	10	6	2	0	5	2

Key: A = Adopted, PA = Partially adopted, "empty" = Not adopted, n/a = not applicable.

Figures may not add to total as partially adopted recommendations and not available have not been counted. Data shown as at 31 December 2019. Number of compliant and explaining firms in 2020 shown in brackets.

<sup>(a)</sup> There is one non-executive director and two executive directors, thus the number of non-executive members represents one third of the board, but it is not plural.

**Table A.3 – Least Approved Proposals in the 2020 Annual General Meetings**

	LEAST APPROVED		SECOND LEAST APPROVED	
	Topic	%	Topic	%
<b>ALTRI</b>	Election of Corporate Bodies	94.6%	Approve Statement on Remuneration Policy	98.0%
<b>BCP</b>	Approve Statement on Remuneration Policy	95.2%	Appraise Management and Supervision of Company and Approve Vote of Confidence to Corporate Bodies	99.6%
<b>CORTICEIRA AMORIM</b>	Election of Corporate Bodies	90.6%	Approve Statement on Remuneration Policy	95.8%
<b>CTT</b>	Election of Directors and Audit Committee Members	98.1%	Ratify Co-options	99.2%
<b>EDP</b>	Approve Statement on Remuneration Policy Applicable to Executive Board	90.7%	Approve Statement on Remuneration Policy Applicable to Other Corporate Bodies	96.8%
<b>EDP RENOVÁVEIS</b>	Authorize Issuance of Non-Convertible and/or Convertible Bonds, Debentures, Warrants, and Other Debt Securities without Pre-emptive Rights up to EUR 300 Million	95.3%	Authorize Share Repurchase Program	98.4%
<b>GALP</b>	Approve Statement on Remuneration Policy	98.1%	Authorize Repurchase and Reissuance of Shares and Bonds	98.1%
<b>IBERSOL</b>	Approve Renewal of Board Powers to Increase the Share Capital Up to EUR 100 Million	90.3%	Approve Individual and Consolidated Financial Statements and Statutory Reports	98.1%
<b>JERÓNIMO MARTINS</b>	Approve Amendment of the Retirement Fund	72.9%	Approve Statement on Remuneration Policy	97.3%
<b>MOTA-ENGIL</b>	Approve Statement on Remuneration Policy	92.2%	Amend Articles	98.3%
<b>NOS</b>	Ratify Co-options	81.7%	Elections for Board Chairman	93.8%
<b>NOVABASE</b>	Approve Statement on Remuneration Policy	64.5%	Election of Remuneration Commission	84.3%
<b>PHAROL</b>	Authorize Repurchase and Reissuance of Shares	99.5%	Approve Statement on Remuneration Policy	99.5%
<b>REN</b>	Approve Statement on Remuneration Policy	99.6%	Authorize Repurchase and Reissuance of Shares	99.8%
<b>SEMAPA</b>	Approve Statement on Remuneration Policy	88.0%	Appraise Management and Supervision of Company and Approve Vote of Confidence to Corporate Bodies	99.7%
<b>SONAE</b>	Approve Statement on Remuneration Policy	98.9%	Authorize Repurchase and Reissuance of Bonds	99.5%
<b>SONAE CAPITAL</b>	– (a)	– (a)	– (a)	– (a)
<b>NAVIGATOR</b>	Approve Statement on Remuneration Policy	93.2%	Ratify Co-options	93.2%

<sup>(a)</sup> All proposals were approved by 100% of the votes.

**Table A.4 – Norges Bank Investment Manager Votes Against on behalf of the Fund**

	2015	2016	2017	2018	2019	2020
<b>ALTRI</b>		Board Election	Board Election			Board Election
<b>BCP</b>		Amendment <sup>(c)</sup> External Auditors		Amendment		
<b>CORTICEIRA AMORIM</b>			Board Election	Remuneration		Board Election Remuneration
<b>CTT</b>						
<b>EDP</b>					Amendment <sup>(c)</sup>	
<b>EDP RENOVÁVEIS</b>	Board Election			Board Election Remuneration		
<b>GALP</b>			Remuneration			
<b>IBERSOL</b>			Board Election			Renewal Board Powers
<b>JERÓNIMO MARTINS</b>		Board Election			Board Election	Amendment Remuneration
<b>MOTA-ENGIL</b>				Board Election Remuneration		Remuneration
<b>NOS</b>		Board Election			Board Election	Board Election
<b>NOVABASE <sup>(a)</sup></b>	-	-	-	-	-	-
<b>PHAROL</b>	Board Election		Financial Reports	Amendment Board Election Financial Reports	Amendment Board Election	
<b>REN</b>	Board Election			Board Election	Board Election	
<b>SEMAPA</b>				Remuneration	Board Election Remuneration	Remuneration
<b>SONAE</b>	Board Election					
<b>SONAE CAPITAL <sup>(b)</sup></b>	-	-	-		Amendment Board Election	-
<b>NAVIGATOR</b>			Remuneration	Remuneration	Amendment Remuneration	Board Election Remuneration
<i># Votes Against</i>	4	5	6	12	12	11
<i>Remuneration</i>	0	0	2	5	2	5

Data source: [www.nbim.no](http://www.nbim.no).

<sup>(a)</sup> The Fund does not hold shares of NOVABASE since 2013. Norges Bank participated in the 2013 annual shareholders' meeting, where they voted against remuneration and board elections.

<sup>(b)</sup> The Fund started investing in Sonae Capital in 2017. There is no record of the Fund attending the 2020 meeting.

<sup>(c)</sup> Renewal of the voting cap.

